

**Note 3. .  
Joint Ownership  
of Generating  
Facilities**

The Company has sold interests in both units of the Catawba Nuclear Station. The other owners of portions of the Catawba Nuclear Station and

supplemental information regarding their ownership are as follows:

Owner	Ownership Interest in the Station
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%
North Carolina Electric Membership Corporation (NCEMC)	28.125%
Piedmont Municipal Power Agency (PMPA)	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River)	9.375%

Each participant has provided its own financing for its ownership interest in the plant.

The Company retains a 12.5 percent ownership interest in Catawba. As of December 31, 1989, \$492,900,000 of "Electric plant in service" represents the Company's investment in Units 1 and 2 and nuclear fuel for those units. Accumulated depreciation and amortization of \$114,000,000 associated with Catawba had been recorded as of year-end. The Company's share of operating costs of Catawba are included in the corresponding electric expenses in the Consolidated Statements of Income.

In connection with the joint ownership, the Company has entered into contractual agreements with the other joint owners to purchase annually declining percentages of the generating capacity and energy from the plant. The agreements were effective beginning with the commercial operation of each unit. Unit 1 and Unit 2 began commercial operation in June 1985 and in August 1986, respectively. Such agreements were established for 15 years for NCMPA and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments are based on variable operating costs, a function of the generation output. Capacity payments are based on the fixed costs of the plant. The estimated purchased capacity obligations through 1994 are \$477,000,000 for 1990, \$413,000,000 for 1991, \$400,000,000 for 1992, \$387,000,000 for 1993 and \$376,000,000 for 1994.

The North Carolina Utilities Commission and the Federal Energy Regulatory Commission granted the Company recovery on a levelized basis of the capital costs and fixed operating and

maintenance costs of capacity purchased from the other joint owners over their contractual purchased power buyback periods. The Public Service Commission of South Carolina allowed the Company recovery on a levelized basis of the capital costs of capacity purchased over one-half their contractual purchased power buyback periods. As provided in current rates in all jurisdictions, the Company recovers the costs of purchased energy and the portions of purchased capacity not being levelized. The portion of costs not recovered through current rates is being accumulated, and the Company is recording a net of tax carrying charge on the accumulated balance. The Company will start to recover the accumulated balance including the carrying charge when the capacity payments drop below the levelized revenues.

For the years ended December 31, 1989, 1988 and 1987, the Company recorded purchased capacity and energy costs from the other joint owners of \$598,100,000, \$632,200,000 and \$693,500,000, respectively. These amounts, reduced by the cost of capacity purchased not reflected in current rates, are included in "Net interchange and purchased power" in the Consolidated Statements of Income. As of December 31, 1989 and 1988, \$239,671,000 and \$192,084,000 net of income taxes, respectively (\$425,103,000 and \$348,282,000, pretax, respectively), associated with the costs of capacity purchased not reflected in current rates had been accumulated in the Consolidated Balance Sheets as "Purchased capacity costs."

Note 4.  
Income Tax  
Expense

Income tax expense consisted of the following (dollars in thousands):

	1989	1988	1987
Income taxes related to electric expenses			
Current income taxes			
Federal	\$203,899	\$207,354	\$264,276
State	44,784	45,606	50,001
	<u>248,683</u>	<u>252,960</u>	<u>314,277</u>
Deferred taxes, net			
Excess tax over book depreciation	76,950	71,102	78,017
Catawba purchased capacity costs, net of amounts reflected in current rates	13,620	6,808	29,209
Amortization of canceled construction costs	(23,959)	(26,116)	(26,503)
Unbilled revenues	(15,716)	(13,965)	(6,133)
Storm damage	24,397	—	—
Other	(9,481)	(11,731)	21,120
	<u>65,811</u>	<u>26,098</u>	<u>95,710</u>
Investment tax credit			
Deferred	11,394	11,812	10,604
Amortization of deferrals (credit)	(18,309)	(18,711)	(24,109)
	<u>(6,915)</u>	<u>(6,899)</u>	<u>(13,505)</u>
Total income taxes related to electric expenses	<u>307,579</u>	<u>272,159</u>	<u>396,482</u>
Income taxes related to other income			
Income taxes — abandonment loss	—	(34,967)	—
Income taxes — other, net	9,053	(3,547)	4,397
Income taxes — credit	(20,602)	(20,102)	(22,555)
Total income taxes related to other income	<u>(11,549)</u>	<u>(58,616)</u>	<u>(18,158)</u>
Total income tax expense	<u>\$296,030</u>	<u>\$213,543*</u>	<u>\$378,324</u>

Total current income taxes were \$234,967,000 for 1989, \$230,242,000 for 1988 and \$295,701,000 for 1987. Of these amounts, state income taxes were \$40,877,000 for 1989, \$42,262,000 for 1988 and \$46,073,000 for 1987. Total income taxes paid were \$188,125,000 in 1989, \$226,400,000 in 1988 and \$294,365,000 in 1987.

Total deferred income taxes were \$67,978,000 for 1989, \$(9,800,000) for 1988 and \$96,128,000 for 1987. Of these amounts, deferred state income taxes were \$13,960,000 for 1989, \$4,070,000 for 1988 and \$17,311,000 for 1987.

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1989	1988	1987
Income taxes on pretax income at the statutory federal rate of 34% 1989 and 1988, 39.95% 1987	\$294,998	\$224,967	\$350,970
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(27,276)	(23,128)	(18,897)
Amortization of electric investment tax credit deferrals	(18,309)	(18,711)	(24,109)
AFUDC in book depreciation/amortization	29,372	31,883	36,520
Deferred income tax flowback at rates higher than statutory	(22,761)	(27,989)	(7,268)
State income taxes, net of federal income tax benefits	36,852	30,928	38,110
Other items, net	3,154	(4,407)	2,998
Total income tax expense	<u>\$296,030</u>	<u>\$213,543*</u>	<u>\$378,324</u>

\* Excludes income taxes of \$63,803,000 related to unbilled revenues. Such income taxes are included in "Cumulative effect of a change in method of accounting for unbilled revenues" on the Consolidated Statements of Income.

The Financial Accounting Standards Board has issued a statement that will require a

change in the method of accounting for income taxes. While classification of certain items on the Consolidated Balance Sheets will change, there will be no material effect on the Company's results of operations. The Company is required to implement this accounting standard by 1992.

**Note 5.  
Short-Term  
Borrowings and  
Compensating-Balance  
Arrangements**

The Company had unused short-term credit facilities of \$380,285,000 as of December 31, 1989, and \$360,700,000 as of December 31, 1988 and 1987, with 52 and 54 commercial banks, respectively. Included in these credit facilities are \$40,000,000 and \$95,000,000, respectively, allocated to annual tender, pollution-control revenue bonds. These facilities are on a fee basis and/or compensating-balance basis. There were no short-term borrowings during 1988 or 1987.

Cash balances maintained at the banks on deposit were \$8,649,000 as of December 31,

1989, and \$16,938,000 as of December 31, 1988. Substantially all of the Company's cash balances are maintained to compensate banks for their services, even though the Company has no formal compensating-balance arrangements. To compensate certain banks for credit facilities, the Company has average balance requirements. Amounts maintained were \$498,500 as of December 31, 1989 and \$1,303,500 as of December 31, 1988 and 1987. The Company retains the right of withdrawal with respect to the funds used for compensating-balance arrangements.

A summary of short-term borrowings is as follows (dollars in thousands):

	December 31, 1989
Amount outstanding at end of period — average rate of 8.68% .....	\$170,000
Maximum amount outstanding during the period .....	\$180,000
Average amount outstanding during the period .....	\$ 34,538
Weighted average interest rate for the period — computed on a daily basis ...	8.93%

**Note 6.  
Common Stock and  
Retained Earnings**

**Common Stock**

During the past three years, stock market purchases were used to satisfy the requirements of the Company's stock plans. The Company currently issues new shares of common stock only for the conversion of preference stock. (See Note 7.)

As of December 31, 1989, a total of 4,667,370 shares was reserved for issuance to stock plans and for the conversion of preference stock.

**Retained Earnings**

As of December 31, 1989, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

**Note 7.  
Preferred and  
Preference Stocks  
Without Sinking  
Fund Requirements**

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1989 and 1988:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

The outstanding Preference Stock, 6½% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1989, 1988 and 1987, shares of preference stock were converted into shares of common stock as

follows:

Year	Preference Shares	Common Shares
1989	2,256	9,422
1988	3,176	13,292
1987	5,489	22,959

In 1986 the Company issued 500,000 shares of Adjustable Rate Preferred Stock, Series A, with a par value of \$100 per share. The dividend rate is adjusted quarterly based on a percentage of the highest rate among certain U.S. Treasury rates. However, in no event will the dividend rate for any dividend period be less than 5.50 percent per annum or greater than 10.50 percent per annum. This rate was 6.35 percent per annum at December 31, 1989.

Preferred and preference stocks without sinking fund requirements as of December 31, 1989 and 1988, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1989	1988
4.50% C .....	1964	350,000	\$ 35,000	\$ 35,000
5.72% D .....	1966	350,000	35,000	35,000
6.72% E .....	1968	350,000	35,000	35,000
8.70% F .....	1970	600,000	60,000	60,000
8.20% G .....	1971	600,000	60,000	60,000
7.80% H .....	1972	600,000	60,000	60,000
8.28% K .....	1977	500,000	50,000	50,000
8.84% M .....	1978	400,000	40,000	40,000
Adjustable Rate A .....	1986	500,000	50,000	50,000
6½% AA Convertible .....	1969	24,574	2,457	—
		26,830	—	2,683
<b>Total</b> .....			<b>\$427,457</b>	<b>\$427,683</b>

**Note 8.**

**Preferred Stocks  
With Sinking Fund  
Requirements**

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1989 and 1988:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

Preferred stocks with sinking fund requirements as of December 31, 1989 and 1988, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1989	1988
7.35% I	1973	456,000	\$ 45,600	\$ —
		480,000	—	48,000
8.20% J	1977	340,000	34,000	—
		360,000	—	36,000
8.375% L	1978	360,000	36,000	—
		380,000	—	38,000
8.84% N	1979	402,500	40,250	—
		418,750	—	41,875
7.875% P	1986	500,000	50,000	50,000
7.12% Q	1987	500,000	50,000	50,000
Less: Current sinking fund requirements				
7.35% I			(2,400)	(2,400)
8.20% J			(2,000)	(2,000)
8.375% L			(2,000)	(2,000)
8.84% N			(1,625)	(1,625)
Total			<u>\$247,825</u>	<u>\$255,850</u>

The annual sinking fund requirements through 1994 are \$8,025,000 in 1990 and 1991; \$9,525,000 in 1992; \$11,025,000 in 1993 and 1994. Some additional redemptions are permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 108 percent of par values, plus accumulated dividends to the redemption date.

**Note 9.  
Long-Term Debt**

First and refunding mortgage bonds outstanding as of December 31, 1989 and 1988, were as follows (dollars in thousands):

Series	Year Due	1989	1988	Series	Year Due	1989	1988
4½%	1992	\$ 50,000	\$ 50,000	(continued)			
4½% B	1992	50,000	50,000	8¼%	2007	\$ 119,500	\$ 119,500
4½%	1995	40,000	40,000	9¼%	2008	120,610	120,610
8½% B	1995	125,000	125,000	10¼%	2009	145,050	145,050
7½%	1996	100,000	100,000	12¼%	2015	62,916	62,916
7½% B	1997	100,000	100,000	10¼% B	2015	50,000	50,000
5¾%	1997	72,600	72,600	9%	2016	175,000	175,000
6¾%	1998	68,500	68,500	8½%	2017	150,000	150,000
7%	1999	56,075	56,075	<u>Pollution-Control</u>			
8% B	1999	64,739	64,739	9¼%	2013	77,000	77,000
8½%	2000	69,244	69,244	6.10% (1989)	2014	40,000	40,000
8¾% B	2000	95,635	95,635	6.125% (1988)			
7½%	2001	97,900	97,900	7.70% (1989)	2012	20,000	20,000
7¾% B	2001	38,050	38,050	6.25% (1988)			
7¼%	2002	78,100	78,100	7.75% (1989)	2017	10,000	10,000
7¾% B	2002	67,900	67,900	5.85% (1988)			
7¼%	2003	94,872	94,872	7.50% (1989)	2017	25,000	25,000
8¼% B	2003	98,050	98,050	5.45% (1988)			
9¼%	2004	95,623	95,623	Less: Funds held			
9¼%	2005	92,800	92,800	in trust			
8¼%	2006	96,850	96,850		(1,176)	(16,211)	
Total						<u>\$2,645,838</u>	<u>\$2,630,803</u>

Substantially all electric plant was mortgaged as of December 31, 1989.

**Note 9:**  
**Long-Term Debt**  
*(Continued)*

Interest paid, net of amount capitalized, was \$230,091,000, \$222,102,000 and \$227,557,000 for the years ended December 31, 1989, 1988 and 1987, respectively.

As of December 31, 1989, the Company had \$130,000,000 in commercial paper backed by an unused long-term credit facility of \$130,000,000. The \$130,000,000 principal

amount of commercial paper is included in other long-term debt.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1994 are \$5,185,000 in 1990; \$5,702,000 in 1991; \$106,226,000 in 1992; \$6,804,000 in 1993 and \$21,049,000 in 1994.

**Note 10:**  
**Canceled**  
**Construction**  
**Projects**

The construction of the Cherokee and Perkins Nuclear Stations was canceled. All retail jurisdictions have permitted recovery of the incurred costs. These costs are being amortized principally over a 10-year period beginning October 1983. (See Note 12.)

As of December 31, 1989 and 1988, the balances for these canceled projects, net of amortization, were \$233,896,000 and \$296,269,000, respectively (\$144,128,000 and \$182,542,000 net of income tax benefits, respectively).

**Note 11:**  
**Retirement**  
**Benefits**

**A. Retirement Plan**

The Company and its operating subsidiaries, with the exception of Nantahala Power and Light Company which maintains its own retirement plans, have a non-contributory, defined benefit retirement plan covering substantially all their employees. The benefits are based on years of creditable service and the employees' average compensation based on the highest compensation during a consecutive sixty-month period. The benefits are reduced by a Social Security adjustment for employees age sixty-five and over and for early retirees with no creditable service prior to September 1, 1980. The Company's policy is to fund pension costs accrued

The Company adopted the provisions of Financial Accounting Standards Board Statement No. 87 (SFAS 87), "Employers' Accounting for Pensions," as of January 1, 1987. The adoption of the new standards did not result in a material change in pension expense in that year. The new standards were adopted prospectively, and related disclosures for previous years have not been restated.

A reconciliation of the funded status of the plan to the amounts recognized in the Consolidated Balance Sheets as of December 31, 1989 and 1988 is as follows (dollars in thousands):

	1989	1988
Accumulated benefit obligation:		
Vested benefits	\$ (582,142)	\$ (528,776)
Nonvested benefits	(22,623)	(30,852)
Accumulated benefit obligation	<u>\$ (604,765)</u>	<u>\$ (559,628)</u>
Fair market value of plan assets, consisting primarily of		
short-term investments and cash equivalents, common stocks,		
real estate investments, and government and industrial bonds	\$ 785,435	\$ 703,269
Projected benefit obligation	(755,353)	(658,829)
Unrecognized net experience gain	(20,352)	(50,677)
Unrecognized prior service cost	(14,232)	—
Remaining unrecognized SFAS 87 transitional obligation	1,602	1,736
Accrued pension cost	<u>\$ (2,900)</u>	<u>\$ (4,501)</u>

Net periodic pension cost for the years ended December 31, 1989, 1988 and 1987, included the following components (dollars in thousands):

	1989	1988	1987
Service cost benefits earned during the year	\$ 24,809	\$ 25,442	\$ 26,707
Interest cost on projected benefit obligation	64,735	55,993	52,212
Actual return on plan assets	(104,226)	(72,465)	(43,000)
Amount deferred for recognition	<u>34,532</u>	<u>6,815</u>	<u>(9,042)</u>
Expected return on plan assets	(69,694)	(65,650)	(52,042)
Net amortization	<u>(1,161)</u>	<u>(199)</u>	<u>134</u>
Net periodic pension cost	<u>\$ 18,689</u>	<u>\$ 15,586</u>	<u>\$ 27,011</u>

**Note 11.  
Retirement  
Benefits**

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 9.5 percent in 1989, 1988 and 1987, while the assumed increase in future compensation levels was 6.5 percent in 1989, 1988 and 1987. The expected long-term rate of return on plan assets used in determining pension cost was 10.0 percent for 1989 and 1988 and 8.5 percent for 1987.

During 1988, the Company conducted a work

activity review which resulted in the elimination of approximately 1,200 positions. Special termination benefits and severance benefits, which amounted to approximately \$24,000,000 of non-plan costs, were provided to those employees that were terminated. Also, as a result of the work activity review, the Company recorded a one-time net loss from terminations associated with its retirement plan of \$4,501,000.

**B. Postretirement Benefits**

The Company currently provides certain health care benefits for retired employees. Substantially all of the Company's employees become eligible for these benefits if they elect early retirement at age fifty-five with ten years of service or if they retire at sixty-five while working for the Company. The cost of retiree health care benefits is recog-

nized as expense as the benefits are paid. The cost to the Company for 1989, 1988 and 1987 amounted to \$6,700,000, \$6,600,000 and \$4,800,000, respectively. The Company reserves the right to terminate, suspend, withdraw, amend or modify the Plans in whole or in part at any time.

**Note 12.  
Commitments and  
Contingencies**

**A. Construction Program**

Projected construction and nuclear fuel costs are \$2.47 billion and \$566 million, respectively, for 1990 through 1992. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such esti-

mates. Cost variances are due to various factors, including revised load estimates, outcome of licensing and environmental matters, and cost and availability of capital.

**B. Nuclear Insurance**

The Company maintains nuclear insurance coverage in three areas: liability coverage, property and decontamination coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases. The Company is being reimbursed by the other joint owners of the Catawba Nuclear Station for certain expenses associated with nuclear insurance premiums paid by the Company.

Pursuant to the Price-Anderson Act as recently amended, the Company is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately \$7.8 billion. The maximum required private primary insurance of \$200 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently \$7.6 billion, which will be increased by \$63 million as each additional commercial nuclear reactor is licensed, has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs, and public liability damages exceed primary insurances, licensees may be assessed up to \$63 million for each of their licensed reactors, payable at a rate not to exceed \$10 million a year per licensed reactor for each incident. The \$63 million amount is subject to indexing for inflation and is further subject to a surcharge of 5 percent if funds are insufficient to pay claims and associated costs. If retrospective premiums were to be assessed, the joint owners of the Catawba Nuclear Station are obligated

to assume their pro rata share of such assessment.

The Company is a member of Nuclear Mutual Limited (NML), which provides \$500 million in primary property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceed its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to \$65 million. This amount represents 10 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL) and purchases \$975 million of insurance through NEIL's excess property and decontamination liability insurance program. The Company has also purchased an additional \$400 million of excess property damage insurance for its Oconee and McGuire plants and \$560 million for its Catawba plant through a pool of stock and mutual insurance companies. If losses ever exceed the accumulated funds available to NEIL for the excess property and decontamination liability program, the Company will be liable, on a pro rata basis, for additional assessments of up to \$25 million. This amount is limited to 7.5 times the Company's annual premium for \$500 million of excess property and decontamination liability insurance. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to Catawba.

In addition to the \$975 million in coverage through NEIL's excess property program and the \$560 million in excess coverage mentioned above, and in lieu of primary property coverage

**Note 12.  
Commitments and  
Contingencies**

through NML, the Company has placed \$500 million through a pool of stock and mutual insurance companies for primary property insurance coverage associated with its interest in the Catawba Nuclear Station.

The Company participates in a NEIL program that provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. The Oconee, McGuire and Catawba Nuclear Stations are insured for up to approximately \$1.8 million, \$2.8 million and \$2.8 million per unit per week, respectively, after a 21-week deductible period, with declining amounts per unit where more

than one unit is involved. Coverages continue at 100 percent for 52 weeks, 67 percent for a second 52 weeks, and 33 percent for a third 52 weeks. If NEIL's losses for this program ever exceed its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to \$25 million. This amount represents 5 times the Company's annual premium to NEIL. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to Catawba.

**C. Other**

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the results of operations or the financial position of the Company.

Certain parties appealed the Company's 1986 rate order of the North Carolina Utilities Commission (NCUC) to the North Carolina Supreme Court on various grounds seeking revision or modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of abandoned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of material facts, and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40 percent to 13.20 percent, required refunds plus interest and reduced rates to reflect the lower rate of return on common equity. During the first quarter of 1989, the Company accrued approximately \$24 million for the refund. The refund has been paid. The Public Staff of the NCUC, joined by two other parties, has appealed this order. The Company is of the opinion that

the Commission acted properly and the final disposition of this matter should not have a material adverse effect on its results of operations or financial position.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various proceedings related to the Interconnection Agreements (the Agreements). The basic contention in each proceeding is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters may be material, they are items covered by the Agreements between the Company and the other joint owners, which have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined, however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

On July 28, 1987, the Federal Energy Regulatory Commission (FERC) granted a petition made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates affirming the other joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on earnings of \$.46 per share, reflected in the fourth quarter of 1988.

**Note 13.  
Other Income**

For the years ended December 31, 1989, 1988 and 1987, the Company recorded investment income of \$15,167,000, \$19,397,000, and \$6,850,000, respectively (\$13,532,000, \$20,098,000, and \$9,020,000, net of income taxes, respectively), as a component of "Other

net" in the Consolidated Statements of Income. The income is primarily from dividends and interest on securities. The taxes associated with the investment income are recorded as components of "Income taxes — other, net" in the Company's Consolidated Statements of Income.

**Note 14.  
Reclassification**

In the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows, certain

prior-year information has been reclassified to conform with 1989 classifications.

## Independent Auditors' Report

We have audited the accompanying consolidated balance sheets and the consolidated statements of capitalization of Duke Power Company and subsidiaries as of December 31, 1989 and 1988, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement

presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the companies at December 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1988 the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues.

*Deloitte & Touche*

Deloitte & Touche  
Certified Public Accountants  
Charlotte, North Carolina  
February 9, 1990

## Responsibility for Financial Statements

The financial statements of Duke Power Company are prepared by management, which is responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions which should be included. The other information in the annual report is consistent with the financial statements. In preparing these statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned

functions. The Company's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment the Company's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte & Touche. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

*David L. Hauser*

David L. Hauser  
Controller



# Management's Discussion And Analysis Of Results Of Operations And Financial Condition

## Results of Operations

### Earnings and Dividends

Earnings per share increased to \$5.13 in 1989 compared to \$4.91 in 1988. The increase in the current year was primarily due to higher sales and lower maintenance expenses at fossil and nuclear plants. These increases were partially offset by a decrease of \$.11 per share due to the refund resulting from the North Carolina Utilities Commission (NCUC) order which lowered the Company's rate of return on common equity in response to a decision of the North Carolina Supreme Court. Earnings per share for 1988 included an increase of \$1.01 per share for the effect of accruing unbilled revenues, a provision for the loss of \$.46 per share because of a court order excluding costs of abandoned plants from the other Catawba joint owners' supplemental power rates and \$.15 per share related to benefits for employees laid off after a work activity review completed late in 1988.

Earnings per share increased over the past five years at an annual rate of 8 percent, to \$5.13 in 1989 from \$3.72 in 1985. The total Company's earned return on average common equity increased from 13.4 percent in 1988 to 14.7 percent in 1989. The return on average common equity in 1988 excludes the effect of accruing for unbilled revenues and the provision for the abandonment loss.

The Company continued its practice of increasing the common stock dividend annually. Common dividends per share increased from \$2.54 in 1985 to \$3.04 in 1989, rising at an annual rate of 5 percent. Consistent with the five-year trend, indicated annual dividends per share increased to \$3.12.

### Revenues and Sales

Revenues billed to customers decreased slightly from 1987 to 1989. Higher kilowatt-hour sales were offset by decreases in prices. Growth in economic activity in the Piedmont Carolinas has caused kilowatt-hour sales billed to increase at a 1 percent annual rate from 1987 to 1989.

Kilowatt-hour sales billed for 1989 were essentially flat when compared to 1988. An increase in sales to the retail sector was partially offset by a decrease in special sales to other utilities. Sales to general service customers increased 4 percent reflecting an overall increase in the customer base. Industrial sales (both textile and other industries) increased 3 percent reflecting economic growth in the service area.

### Operating Expenses

Non-fuel operating and maintenance expense rose at an annual rate of 5 percent from 1985 to

1989. Factors contributing to this rise include increased maintenance at the nuclear stations, additional Nuclear Regulatory Commission requirements and inflation.

"Net interchange and purchased power" decreased 12 percent from \$587 million in 1988 to \$514 million in 1989. The decrease is primarily due to an increase in sales of interchange power.

Fuel expense increased slightly from \$625 million in 1987 to \$660 million in 1989. Higher production required to meet a higher level of demand was partially offset by declining fuel prices. Fuel expense for 1989 increased 5 percent over 1988. This increase reflected the need for additional fossil generation in response to the growth in sales.

Damage from Hurricane Hugo will cost approximately \$64 million. The capital portion of these costs, about \$44 million, will be capitalized and depreciated over approximately 30 years. The Company has received approval from the appropriate regulatory commissions to defer and amortize the remaining \$20 million over a five-year period. Regulatory approval has also been received to defer and amortize over a five-year period another \$3.5 million, of a total \$9.7 million, in damages from tornadoes that struck the Piedmont in May.

### Other Income

Allowance for funds used during construction (AFUDC) represented 15 percent of earnings for common stock in 1989, increasing from 14 percent in 1988 and 11 percent in 1987. The moderate increase in AFUDC over the past three years is a result of construction of the Bad Creek Hydroelectric Station. AFUDC is expected to continue to rise moderately as the Bad Creek Hydroelectric Station nears completion.

Included in "Other, net," the carrying charge on purchased capacity levelization represented 7 percent of total earnings compared to 5 percent in 1988. This change is due to the increasing cumulative effect of the Company's funding purchased power costs not currently collected in rates. (See Note 3, "Notes to Consolidated Financial Statements.")

Subsidiary and non-utility earnings, of which major components are investment income, Crescent Resources, Inc. and merchandising, were 7 percent of total Company earnings in 1989, compared to 6 percent in 1988. The slight increase in these earnings from 1988 is due to an increase in earnings from subsidiary operations which was partially offset by a decrease in investment income as a result of the reduction in the overall investment base of certain subsidiaries.

### Rate Matters

From 1985 through 1989, the Company was involved in various retail rate activities. In 1985 and 1986, rate increases provided for the recovery of the Company's investment in both units of the Catawba Nuclear Station and recovery of increased purchased power and operating expenses. These increases were partially offset when the Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988, to recognize the lower corporate income tax rates included in the Tax Reform Act of 1986. The Company does not anticipate the need for any general rate activity until it is necessary to recover the investment in the Bad Creek Hydroelectric Station. (For additional information on rate matters, see Note 2, "Notes to Consolidated Financial Statements.")

In July 1987 the Federal Energy Regulatory Commission (FERC) approved a 3.56 percent increase in the Company's wholesale rates, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A 2.4 percent rate reduction was implemented in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting a reduction in the corporate income tax rate.

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the results of operations or the financial position of the Company.

Certain parties appealed the Company's 1986 rate order of the NCUC to the North Carolina Supreme Court on various grounds seeking revision or modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of abandoned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of material facts, and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40 percent to 13.20 percent, required refunds plus interest and reduced rates to reflect the lower rate of return on common equity. During the first quarter of 1989, the Company accrued approximately \$24 million for the refund. The refund has been paid. The Public Staff of the NCUC, joined by two other parties, has appealed this order. The Company is of the opinion that the Commission acted properly and the final disposition of this matter should not have a material adverse effect on its results of operations or financial position.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various proceedings related to the Interconnection Agreements (the Agreements). The basic contention in each proceeding is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters may be material they are items covered by the Agreements between the Company and the other joint owners, which have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined; however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

On July 28, 1987, the FERC granted a petition made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates, affirming the other joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on earnings of \$.46 per share, reflected in the fourth quarter of 1988.

### Capital Structure

The Company's capital structure at year-end was 51 percent common equity, 40 percent long-term debt, and 9 percent preferred and preference stocks. This capital structure is consistent with the Company's long-term financial goals.

To satisfy the requirements of various stock purchase plans, the Company purchases common stock on the stock market. The Company does not anticipate issuing common stock, other than for preference stock conversions, in the near term. However, the Company issued new long-term debt in early 1990 and intends to issue additional long-term debt during the year.

### Cash From Operations

In 1989 net cash provided by operating activities accounted for 73 percent of total cash from operating, financing and investing activities. Approximately 13 percent of total cash from operating, financing and investing activities is being used for construction of the Bad Creek Hydroelectric Station.

### Cash From Financing and Investing Activities

During the years 1985-1987, the Company obtained additional funds of \$892 million from the sale of first and refunding mortgage bonds and \$148 million from the sale of preferred stock. These funds were obtained primarily for refinancing activities. In 1988 no additional funds were obtained from the sale of first and refunding mortgage bonds or preferred stock. In 1989 the Company received approval from the NCUC and The South Carolina Public Service Commission to enter into a financing arrange-

ment involving the issuance and sale of a maximum of \$130 million principal amount of its commercial paper backed by long-term bank credit agreements. In accordance with this arrangement, the Company then issued and sold \$130 million principal amount of its commercial paper included in the Consolidated Statements of Capitalization as "Other long-term debt." The proceeds from the issuance of this commercial paper were used primarily to terminate the Nuclear Fuel Trust financings of \$86 million.

The Company also plans to file a registration statement with the Securities and Exchange Commission (SEC) to issue up to \$250 million in First and Refunding Mortgage bonds to be designated as "Medium Term Notes." Approval for the issuance of these Medium Term Notes has been received by the Company from the appropriate state regulatory agencies. The Company amended a registration statement previously filed with the SEC to issue up to a maximum of \$300 million First and Refunding Mortgage bonds. The amendment will permit the Company to obtain necessary funds for construction purposes. Also in early 1990, the Company issued \$200 million in new long-term debt and intends to utilize a portion of the proceeds to redeem the 12 $\frac{3}{4}$ % First and Refunding Mortgage bonds. The Company intends to issue additional long-term debt during the year. The Company has not issued any common stock for the past five years except to satisfy the requirements of its stock purchase plans and the conversion rights of preference stock. (See "Long-Term Financings and Sale of Assets" page 41.)

Because of refinancings, the Company's em-

bedded cost of long-term debt was lowered from 9.47 percent at year-end 1985 to 8.71 percent at year-end 1989. The embedded cost of preferred stock declined from 8.75 percent at the end of 1985 to 7.86 percent at the end of 1989. (For additional information on the Company's capitalization, see Notes 6, 7, 8 and 9, "Notes to Consolidated Financial Statements.")

Church Street Capital Corp., a wholly owned subsidiary of Duke Power Company, was formed in 1985. During 1989 the Company reorganized its subsidiary structure by contributing the stock of its non-utility subsidiaries to Church Street Capital. In addition, the non-utility subsidiaries transferred their investment funds to their new parent. Church Street Capital will provide for central management of funds intended for future non-utility operations. Mint Street Capital Associates, a general partnership of certain subsidiaries of the Company, was dissolved and its assets were ultimately passed to Church Street Capital as a result of the reorganization. As of December 31, 1989, Duke Power Company and consolidated subsidiaries had approximately \$56 million in intermediate-term investments and \$58 million in short-term investments.

#### Fixed Charges Coverage

Fixed charges coverage increased slightly to 4.26 times for 1989 compared to 4.25 times in 1988 using the SEC method. Fixed charges coverage, excluding AFUDC and the return on purchased capacity levelization, was 3.83 times in 1989 compared to 3.88 times in 1988 and the Company's goal of 3.5 times.

## Capital Needs

### Property Additions and Retirements

Additions to property and nuclear fuel of \$1.1 billion and retirements of \$.1 billion resulted in a net increase in gross plant of \$1.0 billion in 1989.

Since January 1, 1985, additions to property and nuclear fuel of \$4.2 billion and retirements of \$282 million have resulted in a net increase in gross plant of \$3.9 billion.

### Construction Expenditures

Plant construction costs for generating facilities, including AFUDC, increased from \$204 million in 1985 to \$388 million in 1989. This increase is primarily the result of construction expenditures at the Bad Creek Hydroelectric Station. Construction costs for distribution plant, including AFUDC, increased from \$178 million in 1985 to \$310 million in 1989, primarily reflecting customer growth in the service area.

### Purchased Capacity Levelization

The rates established in the Company's retail jurisdictions permit the Company to recover its investment in both units of the Catawba Nuclear Station and the costs associated with contractual purchases of capacity from the other Catawba joint owners. The contracts relating to the sales of portions of the station obligate the Company to

purchase power from the other joint owners on an annually declining basis. In the North Carolina retail jurisdiction, regulatory treatment of these contracts provides revenue for the recovery of the capital costs and the fixed operating and maintenance costs of purchased capacity on a levelized basis. In the South Carolina retail jurisdiction, revenues are provided for the recovery of the capital costs of purchased capacity on a levelized basis, while the fixed operating and maintenance costs are recovered in current rates.

These rate treatments require the Company to fund portions of the purchased power payments until these costs, including carrying charges, are recovered at a later date. The Company recovers the accumulated costs and carrying charges when the declining purchased capacity payments drop below the levelized revenues.

The levelized recovery of purchased power obligations under contracts with the other joint owners of the Catawba Nuclear Station will result in payments by the Company over the next three years exceeding the amounts collected in rates for such power by approximately \$231 million. (For additional information on purchased capacity levelization, see Note 3, "Notes to

## Consolidated Financial Statements")

### Future Construction Program

Construction costs for major generating facilities for 1990 through 1992 will reflect continued progress at the Bad Creek Hydroelectric Station and the new Lincoln Combustion Turbine Station as discussed below. Projected construction costs and nuclear fuel costs cumulatively for the next three years are \$2.47 billion and \$566 million, respectively.

Construction continued at the Bad Creek Hydroelectric Station in 1989. Units 1 and 2 of the 1,065-megawatt pumped-storage facility are officially scheduled for completion in 1992, with Units 3 and 4 in 1993. However, construction is currently ahead of schedule. By year-end, \$694 million of an estimated \$1.1 billion had been spent.

In 1989 the Company announced that a site in

Lincoln County, North Carolina, had been selected for a new combustion turbine (CT) facility to meet customer demand in the mid-to-late 1990s. The Lincoln Combustion Turbine Station will be able to accommodate up to 16 combustion turbines with a total generating capacity of approximately 1,200 MW of electricity. Current plans are for the first CT to be operational as early as 1994. Duke has notified the appropriate state regulatory agencies of its intent to begin procedures to obtain required permits for construction and operation of the facility.

The Company is evaluating options for meeting additional future power needs under its "least cost" plan. These options include further energy conservation or load management, bulk power purchases and conventional supply side alternatives for meeting power needs in the 1990s and beyond.

## Significant Trends

While the Company maintained solid financial performance in 1989, the ability to maintain and improve this level of financial strength will depend on several factors. Future trends in the Company's earnings depend to a large extent on economic conditions in the Piedmont Carolinas and on the ability of the Company to maintain and further pursue efficiencies.

During 1989 the Company offered for sale Mill-Power Supply Company, one of Duke's subsidiaries. The Company entered into an agreement with the city of Anderson, South Carolina, which relieved Duke of its obligation to operate the transit system. The Company also has entered into a similar agreement with the city of Durham, North Carolina, subject to certain contingencies. Management is of the opinion that these transactions will not have a material impact on the results of operations or the financial position of the Company.

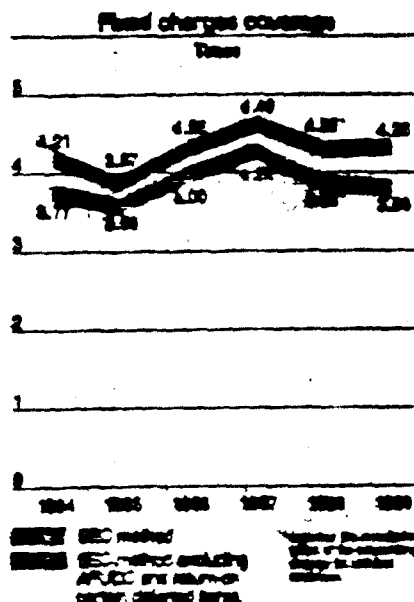
In 1989 the Company along with the Fluor

Corporation of Irvine, California, announced the formation of a new entity named Duke/Fluor Daniel. Duke/Fluor Daniel specializing in coal-fired projects, will offer total design, engineering, construction and operating services of new power plants or repowering, upgrading or modifying existing plants.

The Company is currently monitoring proposed legislation to amend the Clean Air Act. Duke supports the national objective of clean air and has reduced emissions through the use of low-sulfur coal in its fossil plants, through efficient operations and by utilizing nuclear generation. While the Company supports action on this issue, it is concerned that the currently proposed legislation disregards the efforts of utilities, such as Duke, that have already established low emission standards. Without amendments that credit Duke with clean-air actions already taken, the proposed legislation would be very costly to implement.

## FIXED CHARGES COVERAGE

The Company has revised its fixed charges coverage goal to 3.5 times to exclude non-cash items.



## CONSTRUCTION COSTS

Construction costs have increased as completion of the Bad Creek Hydroelectric station nears.



## Long-Term Financings And Sale Of Assets

To meet its capital requirements, the Company has financed with long-term debt and equity securities and has raised additional capital through other types of financings plus the sale of certain assets. In 1987, favorable market conditions prompted the Company to refund several issues of higher-cost securities with lower-cost securities in order to reduce financing costs. Financings and sale of assets from 1987 through 1989 were as follows (dollars in thousands):

	1989 Net proceeds	1988 Net proceeds	1987 Net proceeds
<b>Preferred stock</b>			
7.12% Series Q, \$100 par (500,000 shares issued February 4)			\$ 49,563
<b>Long-term debt</b>			
First and refunding mortgage bonds			
7 1/8% Series B due 1997 (Issued March 5)			98,402
8 1/8% Series due 2017 (Issued February 4)			147,464
Pollution-control series	\$ 15,906	\$ 1,283	38,734
Total	15,906	1,283	284,600
Nuclear fuel trusts	90,945	85,612	77,388
Other long-term debt	130,000		
Total long-term debt	196,851	86,895	361,988
Total financings	196,851	86,895	411,551
Sale of assets			23,496
Total long-term financings and sale of assets	\$196,851	\$86,895	\$435,047

The Company's stock plans began purchasing stock on the stock market in the following years to satisfy plan requirements:

	Stock market purchases initiated
Employees' Stock Ownership Plan	1983
Stock Purchase-Savings Program for Employees	1984
Stock Purchase and Dividend Reinvestment Plan	1985

## Selected Financial Data

	1989	1988	1987	1986	1985
<b>Condensed consolidated statements of income (thousands)</b>					
Electric revenues	\$3,639,339	\$3,626,985	\$3,705,784	\$3,400,933	\$2,898,911
Electric expenses	<u>2,934,739</u>	<u>2,997,434</u>	<u>3,047,827</u>	<u>2,816,157</u>	<u>2,370,876</u>
Electric operating income	704,600	629,551	657,957	584,776	528,035
Other income	<u>101,826</u>	<u>46,211</u>	<u>72,902</u>	<u>127,880</u>	<u>163,821</u>
Income before interest deductions	806,426	675,762	730,859	712,656	691,856
Interest deductions	<u>234,815</u>	<u>227,631</u>	<u>230,661</u>	<u>244,822</u>	<u>254,263</u>
Cumulative effect of accrual of unbilled revenues	—	102,255	—	—	—
Net income	571,611	550,386	500,198	467,834	437,593
Dividends on preferred and preference stocks	<u>52,477</u>	<u>53,329</u>	<u>54,264</u>	<u>58,767</u>	<u>60,912</u>
Earnings for common stock	<u>\$ 519,134</u>	<u>\$ 497,057</u>	<u>\$ 445,934</u>	<u>\$ 409,067</u>	<u>\$ 376,681</u>
<b>Common stock data</b>					
Shares of common stock — year-end (thousands)	101,281	101,272	101,259	101,236	101,194
— average (thousands)	101,277	101,266	101,250	101,220	101,178
<b>Per share of common stock</b>					
Earnings (a)	\$5.13	\$4.91	\$4.40	\$4.04	\$3.72
Dividends	\$3.04	\$2.88	\$2.74	\$2.64	\$2.54
Book value — year-end	\$36.10	\$34.01	\$31.96	\$30.34	\$28.98
Market price — high-low	\$56 1/4-42 1/4	\$49-42 1/4	\$51 1/4-39 1/4	\$52-34 1/4	\$36 1/4-28 1/4
— year-end	\$56 1/4	\$46 1/4	\$42 1/4	\$45 1/4	\$35 1/4
<b>Balance sheet data (thousands)</b>					
Total assets	\$9,542,398	\$8,890,605	\$8,511,794	\$8,226,729	\$8,024,163
Long-term debt	\$2,822,442	\$2,728,794	\$2,723,382	\$2,752,302	\$2,721,041
Preferred stocks with sinking fund requirements	\$247,825	\$255,850	\$263,875	\$221,991	\$277,012
<b>Electric and other statistics</b>					
<b>Kilowatt-hour sales (millions)</b>					
Residential	16,895	16,744	16,580	15,636	14,241
General service	14,206	13,634	13,026	12,312	11,338
Industrial	25,934	25,154	24,974	23,212	21,837
Other energy and wholesale	<u>9,593</u>	<u>10,667</u>	<u>10,171</u>	<u>9,353</u>	<u>8,642</u>
Total kilowatt-hour sales billed	66,628	66,199	64,751	60,513	56,058
Unbilled kilowatt-hour sales (b)	<u>370</u>	<u>165</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total kilowatt-hour sales	<u>66,998</u>	<u>66,364</u>	<u>64,751</u>	<u>60,513</u>	<u>56,058</u>
<b>Residential customer data</b>					
Average annual KWH use	12,459	12,614	12,830	12,413	11,659
Average revenue billed per KWH	7.09¢	7.20¢	7.40¢	6.96¢	6.42¢
<b>Sources of energy (millions of KWH)(c)</b>					
Generated — Coal	26,175	23,930	23,617	30,249	27,619
— Nuclear (d)	47,773	47,934	44,810	35,044	33,700
— Hydro	1,520	402	1,454	771	1,162
— Oil and gas	<u>27</u>	<u>32</u>	<u>(1)</u>	<u>14</u>	<u>13</u>
Total generation	75,495	72,298	69,880	66,078	62,494
Purchased power and net interchange	<u>(1,218)</u>	<u>437</u>	<u>5</u>	<u>(822)</u>	<u>(1,742)</u>
Total output	74,277	72,735	69,885	65,256	60,752
Less: Other Catawba joint owners' share	12,566	12,166	11,961	6,261	3,827
Plus: Purchases from other Catawba joint owners	<u>9,809</u>	<u>10,244</u>	<u>10,872</u>	<u>5,953</u>	<u>3,769</u>
Total sources of energy	71,520	70,813	68,796	64,948	60,694
Line loss and Company usage	<u>4,892</u>	<u>4,614</u>	<u>4,045</u>	<u>4,435</u>	<u>4,636</u>
Total kilowatt-hour sales billed	<u>66,628</u>	<u>66,199</u>	<u>64,751</u>	<u>60,513</u>	<u>56,058</u>
System average heat rate	10,013	10,021	10,024	9,881	9,900
System load factor	61.8%	59.8%	62.5%	59.8%	55.8%

(a) Includes cumulative effect of the accounting change for unbilled revenues for 1988

(b) Includes the restoration of unbilled kilowatt-hours for 1988

(c) Does not include operating statistics of Narragansett Power and Light Company

(d) Includes 100% of Catawba generation

# Selected Financial Data

Quarterly Financial Data	Dollars in Thousands (except per-share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(b)	Total
1989 by quarter						
Electric Revenues		\$863,235	\$877,304	\$1,011,294	\$887,506	\$3,639,339
Electric Operating Income		152,365	153,850	230,420	167,965	704,600
Net Income		127,280	127,270	194,812	122,249	571,611
Earnings Per Share		\$1.13	\$1.12	\$1.80	\$1.08	\$5.13
1988 by quarter (a)						
Electric Revenues		\$917,358	\$829,999	\$1,029,452	\$850,176	\$3,626,985
Electric Operating Income		167,726	124,483	219,017	118,325	629,551
Income Before Cumulative Effect of Accrual of Unbilled Revenues		135,190	95,777	192,914	24,250	448,131
Cumulative Effect of Accrual of Unbilled Revenues-Net		102,255	—	—	—	102,255
Net Income		\$237,445	\$ 95,777	\$ 192,914	\$ 24,250	\$ 550,386
Earnings Per Share						
Before Cumulative Effect of Accrual of Unbilled Revenues		\$1.20	\$0.82	\$1.77	\$0.11	\$3.90
Cumulative Effect of Accrual of Unbilled Revenues-Net		1.01	—	—	—	1.01
Total		\$2.21	\$0.82	\$1.77	\$0.11	\$4.91

Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate changes and maintenance of electric generating units, especially nuclear units.

(a) Quarterly information for 1988 has been restated to reflect the accrual of unbilled revenues. (See Note 1, "Notes to Consolidated Financial Statements.")

(b) The fourth quarter of 1988 includes the provision for abandonment loss and the cost of benefits for employees laid off after the work activity review. (See Notes 11 and 12 "Notes to Consolidated Financial Statements.")

## Stock Market Information

The Company had approximately 115,734 holders of record of common stock as of December 31, 1989, and 120,277 holders as of December 31, 1988. During 1989 approximately 34,640,200 shares of common stock were traded, compared with 57,278,900 during the previous year. The Company's common stock prices, as quoted in the New York Stock Exchange Composite Transactions, and dividends paid are as follows:

	Dividends Per Share	Stock Price Range			Dividends Per Share	Stock Price Range	
		High	Low			High	Low
1989 by quarter				1988 by quarter			
Fourth	\$0.78	\$56½	\$50½	Fourth	\$0.74	\$47½	\$44½
Third	0.78	53½	49½	Third	0.74	46½	42½
Second	0.74	50½	44½	Second	0.70	47½	42½
First	0.74	46½	42½	First	0.70	49	43

## Subsidiary Investments

Dollars in Thousands	1989	1988
Property and other assets	\$ 93,210	\$ 86,820
Investments and net current assets	161,578	122,079
Total assets	254,788	208,899
Deferred income taxes	15,480	16,131
Other liabilities	29,521	10,829
Total liabilities	45,001	26,960
Investments in and advances to subsidiaries	\$209,787	\$181,939
Earnings of subsidiaries, net	\$ 24,380	\$ 18,482





**Other  
Information**

**Notice of annual meeting**

The 1990 meeting of holders of Duke Power Company common stock will be held Thursday, April 26, at 10 a.m. in the O.J. Miller Auditorium of the Electric Center, 526 South Church Street, Charlotte N.C.

**Transfer agents**

Common Stock only:  
Investor Relations  
Duke Power Company  
P.O. Box 36426  
Charlotte, N.C. 28236

**All Stocks:**

First Chicago Trust  
Company of New York  
30 West Broadway  
New York, N.Y. 10007

**Registrars**

Common Stock only:  
First Union National Bank  
of North Carolina  
212 South Tryon Street  
Suite 450  
Charlotte, N.C. 28281

**All Stocks:**

First Chicago Trust  
Company of New York  
30 West Broadway  
New York, N.Y. 10007

**Corporate headquarters**

422 South Church Street  
P.O. Box 33189  
Charlotte, N.C. 28242  
704/373-4011

**SEC Form 10-K and statistical supplement**

Upon request, the Company will provide without charge a copy of its 1989 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. Also available without charge is the Statistical Supplement to the 1989 Annual Report to Shareholders. Requests for these documents should be directed to Jeff Johnson, Investor Relations, Duke Power Company, P.O. Box 36426, Charlotte, N.C. 28236. Shareholders may call Investor Relations at 373-4579 (Charlotte) or at the following toll-free numbers: 1-800-532-0492 (North Carolina); 1-800-438-0142 (elsewhere in the United States).

**Investor services**

Duke Power Company offers several services for shareholders. The Stock Purchase and Dividend Reinvestment Plan, available to all shareholders and Duke Power electric customers, provides a convenient way to buy shares without incurring brokerage fees. Direct Deposit of Dividends automatically credits dividends to shareholders' checking or savings accounts on the same day they are paid. And the Small Shares Repurchase Service allows investors with fewer than 50 shares to close their accounts by selling the shares directly back to the Company. Shareholders with questions about any of these services can call Investor Relations at the above numbers.

**Stock exchange listing**

Duke Power Company common stock is listed and traded on the New York Stock Exchange. The trading symbol is DUK.

**Annual Report**

The 1989 Annual Report is available on audiotape. For copies, write Duke Power Company, Corporate Communications, P.O. Box 33189, Charlotte, N.C. 28242.

END

CERTIFICATE OF SERVICE

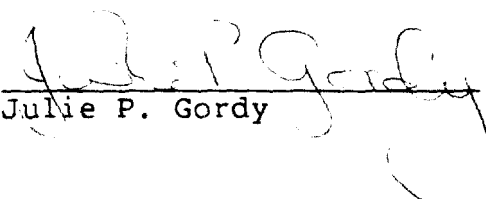
I hereby certify that copies of the foregoing "Reply" were properly mailed, postage prepaid, this 6th day of March, 1991, to the following:

Duke Power Company  
P. O. Box 33189  
Charlotte, NC 28242  
Attn: Rowe Hass

Federal Energy Regulatory Commission  
825 North Capitol Street, N.E.  
Washington, DC 20426

South Carolina Public Service Commission  
P. O. Drawer 11649  
Columbia, SC 29211

- \* Michael D. Paul  
Reid & Priest  
701 Pennsylvania Ave., N.W.  
Washington, D.C. 20004
- \* John T. Curry, Chief  
Accounting Systems Branch  
Accounting and Audits Division  
Common Carrier Bureau  
Federal Communications Commission  
2000 L Street, N.W.  
Room 812  
Washington, D.C. 20554

  
Julie P. Gordy

- \* By Hand Delivery